

THE DEWEY ELECTRONICS CORPORATION
FISCAL YEAR 2023 FINANCIALS
SIX MONTHS ENDING DECEMBER 31, 2022

BALANCE SHEETS

	Not Reviewed by outside Auditors	Reviewed by Eisner Amper
	DECEMBER 31, 2022	JUNE 30, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,801,396	\$ 2,978,490
Accounts receivable	292,551	268,876
Grant receivable	-	211,059
Contract receivable	113,175	
Inventory	3,587,687	2,972,039
Prepaid expenses and other current assets	88,431	89,269
	<u>5,883,240</u>	<u>6,519,733</u>
Property and equipment net	432,880	486,066
Intangible assets, net of accumulated amortization	168,164	190,195
Deferred tax asset	205,785	205,785
Security Deposit	31,167	31,167
	<u>\$ 6,721,236</u>	<u>\$ 7,432,946</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	-	308,883
Trade accounts payable	26,631	43,672
Income tax payable/(receivable)	112,295	(44,996)
Deferred gain on sale - current portion	165,764	165,764
Customer deposits	277,800	277,800
Accrued expenses and other liabilities	1,091,758	1,188,167
	<u>1,674,248</u>	<u>1,939,290</u>
Long-term debt, net of current maturities:		
Deferred gain on sale of assets, net of current	276,273	359,155
Long-term pension liability	300,475	330,681
	<u>2,250,996</u>	<u>2,629,126</u>
Stockholders' equity		
Preferred stock, par value \$1.00; authorized 250,000 shares, issued and outstanding-none	--	--
Common stock, par value \$.01; authorized 3,000,000 shares; 1,693,397 issued and 939,298 shares outstanding at December 31,2022, and at June 30, 2022.	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained earnings	4,268,055	4,631,840
Accumulated other comprehensive loss	(141,713)	(171,918)
	<u>7,027,246</u>	<u>7,360,826</u>
Less: Treasury stock, 754,099 at December 31, 2021, and 326,666 shares at June 30, 2021 at cost	<u>(2,557,006)</u>	<u>(2,557,006)</u>
Total stockholders' equity	<u>4,470,240</u>	<u>4,803,820</u>
	<u>\$ 6,721,236</u>	<u>\$ 7,432,946</u>

THE DEWEY ELECTRONICS CORPORATION

Statements of Income

Not reviewed by outside auditors

	SIX MONTHS ENDED DECEMBER 31,	
	2022	2021
Revenues	\$ 1,942,038	\$ 4,967,435
Cost of goods sold	1,445,329	3,999,614
Gross profit	496,709	967,821
Selling, general and administrative expenses	702,343	876,381
	36%	18%
Earnings (loss) from operations	(205,634)	91,440
Other income (expense)		
Interest expense	(5,604)	(9,762)
Other (expense) income	(10,210)	219,403
Total other income	(15,814)	209,641
Net income before provision for income taxes	(221,448)	301,081
Provision for income taxes		
Current Income tax expense	142,337	0
Deferred income tax (benefit) expense	--	--
Total provision for income tax	142,337	0
Net Income	\$ (363,785)	\$ 301,081

Statements of Comprehensive Income

	SIX MONTHS ENDED DECEMBER 31,	
	2022	2021
Net Income	\$ (363,785)	\$ 301,081
Amortization of actuarial income	30,206	30,206
Comprehensive income	\$ (333,579)	\$ 331,287

THE DEWEY ELECTRONICS CORPORATION**Statements of Cash Flows**

Not reviewed by outside auditors

	SIX MONTHS ENDED DECEMBER 31,	
	2022	2021
Cash flows from operating activities:		
Net (Loss)/Income	(363,785)	301,081
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	87,148	75,747
Amortization of deferred gain	(82,882)	(82,882)
(Increase)/Decrease in:		
Accounts receivable	(23,675)	400,774
Inventory	(615,648)	2,003,335
Prepaid expenses and other current assets	838	92,987
Grant receivable	211,059	-
Contract receivable	(113,175)	
Increase/(decrease) in:		
Accounts payable	(17,041)	(223,773)
Income taxes payable/(receivable)	157,291	-
Customer Deposits	-	(1,380,930)
Accrued expenses and other liabilities	(96,409)	130,606
Net cash provided by operating activities	<u>(856,279)</u>	<u>1,316,946</u>
Cash flows from investing activities:		
Acquisition of business	-	(150,000)
Payments for purchases of property and equipment	(11,932)	(74,546)
Net cash used in investing activities	<u>(11,932)</u>	<u>(224,546)</u>
Cash flows from financing activities:		
Net Proceeds from (payments on) line of credit	(308,883)	(572,271)
Payments for Stock repurchase	-	(1,949,094)
Net cash used in financing activities	<u>(308,883)</u>	<u>(2,521,365)</u>
Net change in cash and cash equivalents	(1,177,094)	(1,428,965)
Cash and cash equivalents - beginning	<u>2,978,490</u>	<u>2,928,115</u>
Cash and cash equivalents - ending	<u>1,801,396</u>	<u>1,499,150</u>
Supplemental disclosure of cash paid/(received):		
Interest	\$ 5,604	\$ 9,762
Income taxes paid	\$ 405,025	\$ -
Income tax refunds	(421,950)	

These notes were not reviewed by outside auditors

1. Stock Repurchase

On December 1, 2021, The Company repurchased a total of 427,433 shares of the Company's stock tendered at a final purchase price of \$4.56. The aggregate cost of the tender to repurchase common stock, excluding related fees and expenses, is \$1,949,094. The Company paid for the repurchases with excess cash from the proceeds of a previously reported sale of real estate. The repurchased shares represent approximately 31.27% of outstanding shares.

2. INI Power Systems Asset Acquisition

On September 28th, 2020, the Company entered into an agreement with Corbel Structured Capital Equity Partners LP to purchase essentially all of the assets of INI Power Systems. This is being accounted for as a business combination. The Company acquired Inventory valued at \$261,000, assorted Machinery and equipment valued at \$261,000, and Patents and trademarks valued at \$236,000. At the time of the sale INI assets were acquired in exchange for \$150,000 Cash, and an additional \$150,000 was due, and paid September 28, 2021. In addition, the Company agreed to pay 15% royalties on INI product sales, and 50% on any proceeds from the sale of INI asset sales, both for 5 years.

For accounting purposes future revenues are conservatively forecasted. The present value of the estimated future royalties is \$300,475. The company paid royalties to Corbel of \$14,508 for the six months ended December 31, 2022, compared to \$29,311 at December 31, 2021. These accrued royalty costs will be amortized over five years. For the period ended December 31, 2022, the company recognized approximately \$35,000, compared to the same period in 2021, with \$34,000 of amortization expense related to the INI purchase.

3. Inventories

Inventories consist of:

	<u>DECEMBER 31, 2022</u>	<u>JUNE 30, 2022</u>
Finished Goods	\$ 318,172	\$ 275,252
Work In Progress	1,689,457	1,334,403
Raw Materials	<u>1,580,058</u>	<u>1,362,384</u>
Total	<u>\$ 3,587,687</u>	<u>\$ 2,972,039</u>

4. Property, Plant, and Equipment

On August 13, 2020, the company entered into a sale and purchase agreement for the sale of the building and associated property for cash consideration of \$4 million dollars. At the time of the sale, the company recorded a gain of \$2.2 million and a deferred gain of \$829,000, which is being amortized over five years. For the six months ended December 31, 2022 and 2021, the Company recognized \$82,882 of this gain.

Property, plant, and equipment are stated at cost. Allowance for depreciation is provided on a straight-line basis over estimated useful lives of three to ten years for machinery and equipment, five to ten years for furniture and fixtures and improvements.

With the INI business combination, we acquired \$104,000 in Machinery and equipment, and \$236,000 in Patents, trademarks and intellectual property. These assets will be depreciated over 5 years.

For information related to land held for resale on June 6, 2022, see our year ended June 30, 2022 financials, Note C – Sale of Property and Equipment

5. Other Assets

Our Grant receivable of \$224K was related to the Employee Retention credit, we received those funds in the first six months ending December 31, 2022.

Contract receivable of \$113K at December 31, 2022 relates to contract work that was completed, shipped, and recognized in our earnings. The company believes we will be fully paid for this contract work.

6. Accrued Expenses and Other Liabilities

	<u>DECEMBER 31, 2022</u>	<u>JUNE 30, 2022</u>
Accrued pension costs	\$460,130	\$439,092
Accrued audit and accounting	44,487	72,577
Accrued compensation & benefits	181,877	221,630
Accrued royalty	238,680	247,601
Accrued warranty reserve	100,403	100,403
Other accrued expenses	<u>48,146</u>	<u>100,403</u>
Total	<u>\$ 1,073,723</u>	<u>\$ 1,188,167</u>

7. Revenues

Revenue for power products, which includes original equipment, replacement parts, and engineering services approximate \$1,007,000, or 52% for the six months ended December 31, 2022, compared to revenues of \$3,651,000 or 73% for the six months ended December 31, 2021. Other Non-power products accounted for \$935,000 or 48% of revenues in the six months ended December 31, 2022 and \$1,316,000 or 27% of revenues for the same period in the prior fiscal year.

INI is included in the power product revenues above. INI represents 6% of total company revenue for the six months ended December 31, 2022, and 12% for the same period in the prior fiscal year.

The aggregate value of the Company's backlog of sales orders was \$5.2 million on December 31, 2022, approximately 60-70% of this is expected to become revenue in the current fiscal year. The Company's backlog of sales orders was \$2.6 million on December 31, 2021.

8. Gross Profit

The Company earned a gross profit of \$496,000, and 26% of revenues for the six months ended December 31, 2022 compared to a gross profit of \$967,000 and 20% of revenues for the same period in fiscal year 2021.

The slight increase in profit rate for the six months ended December 31, 2022 was due to change in product mix, and minor sale price increases where possible.

9. Selling, General and Administrative Expenses

Selling, General and Administrative Expenses for the six months ended December 31, 2022 were \$702,000 or 36% of revenues compared to \$876,000 or 17% of revenues for the six months ended December 31, 2021. The decrease in dollars is due to a reduction in outside consulting and support costs compared to the six months ended December 31, 2022.

10. Taxes on Income

For the period ended December 31, 2022 The Company incurred \$142,000 in tax expense related to Employee Retention Credits Income. The tax liabilities for the current fiscal year will be assessed at year end..

Please refer to Note K on our June 30, 2022 financial statements for more details.

11. Pension Plan

Please refer to Note L of the June 30, 2022 financials for all Pension Plan details.

12. Credit Facility

See Note M and Q on Dewey Electronics Corporation year end June 30, 2022 Annual Reviewed Financial statements concerning the loan and security agreement entered between Dewey Electronics and Crestmark Financial.

This Loan was terminated on October 11, 2022, all obligations were satisfied at which time the lender discharged the Company and released any lien on the Company's property.

13. Leasehold Commitments

The Company entered into a five-year sale and leaseback agreement for office and warehouse space beginning September 1, 2020.

Future minimum rental payments under future noncancelable operating lease as of December 31, 2022 are approximately:

2023	\$ 196,000
2024	201,000
2025	206,000
Thereafter	<u>34,000</u>
Future minimum lease payments	<u>\$ 630,500</u>

The Financial Statements have been prepared by the Company in good faith. The December 31, six-month results, have not been reviewed by an outside auditor. The Financial Statements fairly present the financial condition and operating results of the Company as of the date, and for the period, indicated in the Financial Statements.

To the Company's knowledge, since December 31, 2022, there has not been any change in the assets, liabilities, financial condition, or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not been, in the aggregate, materially adverse to the Company.